

Interim Condensed Consolidated Financial Statements of

Brownstone Energy Inc.

September 30, 2015

(Unaudited - prepared in Canadian dollars)

Contents

Interim Condensed Consolidated Financial Statements:

| | |
|---|-------------|
| Notice to Reader | 2 |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Loss and Comprehensive Loss | 4 |
| Consolidated Statements of Changes in Equity | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to the Interim Condensed Consolidated Financial Statements | 7-19 |

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2015****(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, 2015 and June 30, 2015
(Unaudited - prepared in Canadian dollars)

| | <u>Notes</u> | <u>September 30, 2015</u> | <u>June 30, 2015</u> |
|--|--------------|-------------------------------|--------------------------|
| Assets | | | |
| Current | | | |
| Cash | | \$ 48,798 | \$ 2,579,139 |
| Due from brokers | | - | 588,573 |
| Prepays and receivables | | 67,524 | 89,343 |
| Investments, at fair value | 4 | 5,390,803 | 5,451,327 |
| | | <u>5,507,125</u> | <u>8,708,382</u> |
| Property, plant and equipment | | 19,225 | 18,145 |
| Exploration and evaluation assets | 3 | 11,003 | 3 |
| | | <u>\$ 5,537,353</u> | <u>\$ 8,726,530</u> |
| Liabilities and Equity | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | \$ 122,340 | \$ 246,742 |
| Due to brokers | | 1,513,425 | - |
| | | <u>1,635,765</u> | <u>246,742</u> |
| Equity | | | |
| Share capital | 7(a) | 96,597,845 | 96,597,845 |
| Contributed surplus | 7(c) | 24,554,508 | 24,554,508 |
| Foreign currency translation reserve | | 614,778 | 620,108 |
| Deficit | | <u>(117,865,543)</u> | <u>(113,292,673)</u> |
| | | <u>3,901,588</u> | <u>8,479,788</u> |
| | | <u>\$ 5,537,353</u> | <u>\$ 8,726,530</u> |
| Contingent liability | 13 | | |

See accompanying notes to the interim condensed consolidated financial statements.

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

| | <u>Notes</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|-----------------------|----------------|
| Net investment losses | | | |
| Net realized losses on disposal of investments | | \$ (3,316,367) | \$ (377,387) |
| Net change in unrealized losses on investments | | (935,298) | (190,642) |
| | | (4,251,665) | (568,029) |
| Interest and other income | | 12,105 | 73,267 |
| | | (4,239,560) | (494,762) |
| Expenses | | | |
| Operating, general and administrative | 7, 9 | 314,116 | 186,932 |
| Impairment of exploration and evaluation assets, net | | - | 2,071,157 |
| Finance expenses | 10 | 19,194 | - |
| | | 333,310 | 2,258,089 |
| Loss before income taxes | | (4,572,870) | (2,752,851) |
| Income tax expense | | - | 14,402 |
| Net loss for the period | | (4,572,870) | (2,767,253) |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | | (5,330) | 165,377 |
| Total comprehensive loss for the period | | \$ (4,578,200) | \$ (2,601,876) |
| Loss per common share based on net loss for the period | 7(d) | | |
| Basic and diluted | | \$ (0.04) | \$ (0.02) |
| Weighted average number of common shares outstanding | 7(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, 2015 and 2014
(Unaudited - prepared in Canadian dollars)

| | | Number of shares | Share capital | Contributed surplus | Foreign currency translation reserve | Deficit | Total equity |
|---|--------------|-----------------------------|----------------------|--------------------------------|---|-------------------------|----------------------|
| Balance at June 30, 2014 | Notes | 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 | 7(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 |
| Balance at June 30, 2015 | | 129,794,289 | \$ 96,597,845 | \$ 24,554,508 | \$ 620,108 | \$ (113,292,673) | \$ 8,479,788 |
| Net loss for the period | | - | - | - | - | (4,572,870) | (4,572,870) |
| Exchange differences on translation of foreign operations | | - | - | - | (5,330) | - | (5,330) |
| Total comprehensive loss for the period | | - | - | - | (5,330) | (4,572,870) | (4,578,200) |
| Balance at September 30, 2015 | | 129,794,289 | \$ 96,597,845 | \$ 24,554,508 | \$ 614,778 | \$ (117,865,543) | \$ 3,901,588 |

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>2015</u> | <u>2014</u> |
|--|--------------------|---------------------|
| Cash flows from operating activities | | |
| Net loss for the period | \$ (4,572,870) | \$ (2,767,253) |
| Items not affecting cash | | |
| Net realized losses on disposal of investments | 3,316,367 | 377,387 |
| Net change in unrealized losses on investments | 935,298 | 190,642 |
| Impairment of exploration and evaluation assets, net | - | 2,071,157 |
| Stock-based compensation expense | - | 10,217 |
| Depreciation | 320 | - |
| | <u>(320,885)</u> | (117,850) |
| Changes in non-cash working capital balances | | |
| Decrease in prepaids and receivables | 21,819 | 812,229 |
| Decrease (increase) in due from brokers | 588,573 | (130,285) |
| Decrease in income taxes receivable | - | 14,852 |
| Decrease in accounts payable and accrued liabilities | (124,402) | (89,590) |
| Increase in due to brokers | 1,513,425 | - |
| | <u>1,678,530</u> | 489,356 |
| Cash flows used in investing activities | | |
| Expenditures on exploration and evaluation assets, net | (11,000) | (228,491) |
| Purchase of property, plant and equipment | (1,400) | - |
| Proceeds on disposal of investments | 5,715,765 | 423,744 |
| Purchases of investments | (9,906,906) | (1,456,856) |
| | <u>(4,203,541)</u> | (1,261,603) |
| Net decrease in cash and cash equivalents during the period | (2,525,011) | (772,247) |
| Exchange rate changes on foreign currency cash balances | (5,330) | (19,680) |
| Cash, beginning of period | 2,579,139 | 5,377,283 |
| Cash, end of period | \$ 48,798 | \$ 4,585,356 |
| Supplemental cash flow information | | |
| Income taxes paid | \$ - | \$ 4,796 |
| Finance expense paid | 19,194 | - |

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(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 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.

These interim condensed consolidated financial statements ("interim consolidated statements") were approved for issuance by the Company's board of directors on October 26, 2015.

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").

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, 2015. Accordingly, these interim consolidated statements for the three months ended September 30, 2015 and 2014 should be read together with the annual consolidated financial statements as at and for the year ended June 30, 2015.

(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.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited - prepared in Canadian dollars)

2. Basis of preparation (continued):

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. 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 | 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 September 30, 2015 | 11,003 | - | - | 11,003 |

(a) Canada:

- (i) As at September 30, 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 three months ended September 30, 2015, the Company spent \$3,841 (three months ended September 30, 2014 - nil) to maintain these properties in good standing which was expensed in the statements of 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).

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited - prepared in Canadian dollars)

4. 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, 2015

(Unaudited - prepared in Canadian dollars)

4. 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, 2015 | \$ 5,390,803 | \$ 13,227,524 |
| June 30, 2015 | 5,451,327 | 12,309,444 |

(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, 2015 and June 30, 2015:

| 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, 2015 | \$ 4,587,680 | \$ 303,123 | \$ 500,000 | \$ 5,390,803 |
| June 30, 2015 | 5,251,327 | - | 200,000 | 5,451,327 |

There were no transfers between Levels during the three months ended September 30, 2015 or for the year ended June 30, 2015.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the three months ended September 30, 2015 and year ended June 30, 2015. 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, 2015 | \$ 200,000 | \$ 300,000 | \$ - | \$ - | \$ 500,000 |
| June 30, 2015 | 500,000 | - | (300,000) | - | 200,000 |

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited - prepared in Canadian dollars)

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

Significant unobservable inputs used in the fair value measurement of Level 3 investments were:

| Description | Fair value at September 30, 2015 | Valuation technique | Unobservable input | % of Investments | Sensitivity to changes in significant unobservable inputs (%) |
|---------------------------|----------------------------------|----------------------|----------------------------------|------------------|---|
| Unlisted private equities | \$ 300,000 | Grey market activity | New investment during the period | 5.6 | Additional grey market activity |
| Unlisted private equities | 200,000 | Valuation technique | No change | 3.7 | Additional grey market activity |
| | \$ 500,000 | | | 9.3 | |

| Description | Fair value at June 30, 2015 | Valuation technique | Unobservable input | % of Investments | Sensitivity to changes in significant unobservable inputs (%) |
|---------------------------|-----------------------------|---------------------|--|------------------|--|
| Unlisted private equities | \$ 200,000 | Valuation technique | Trends in comparable publicly traded companies | 3.7 | The estimated fair value would increase if the discount for lack of marketability were lower |
| | \$ 200,000 | | | 3.7 | |

For these investments valued based on trends in comparable publicly traded companies, general market conditions and specific company information, the inputs used can be highly judgmental. A +/- 25% change on the fair value of these investments will result in a corresponding +/- \$100,000 (June 30, 2015 - \$50,000) 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.

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2015****(Unaudited - prepared in Canadian dollars)**

5. Financial assets and liabilities other than investments at fair value:

Financial assets and liabilities other than investments at fair value as at September 30, 2015 and June 30, 2015 were as follows:

| | September 30, 2015 | June 30, 2015 |
|--|---------------------------|---------------|
| Cash | \$ 48,798 | \$ 2,579,139 |
| Due from brokers | - | 588,573 |
| Receivables | 20,017 | 35,921 |
| Accounts payable and accrued liabilities | (122,340) | (246,742) |
| Due to brokers | (1,513,425) | |
| | \$ 2,956,891 | \$ 2,956,891 |

The carrying values of cash, due from brokers, receivables and accounts payable and accrued liabilities and due to brokers approximate their fair values due to the short term to maturity for these instruments. Except for cash (Level 1), all are categorized in Level 2.

6. 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 months ended September 30 were as follows:

| Type of expense | 2015 | 2014 |
|----------------------------------|-------------------|------------|
| Salaries and consulting fees | \$ 107,250 | \$ 144,188 |
| Other short-term benefits | 3,182 | 3,974 |
| Stock-based compensation expense | - | 8,400 |
| | \$ 110,432 | \$ 156,561 |

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.

7. 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, 2015.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited - prepared in Canadian dollars)

7. Equity (continued):

For the three months ended September 30, 2015, included in operating, general and administrative expenses was stock-based compensation expense of nil (three months ended September 30, 2014 - \$10,217) 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, 2015 and June 30, 2015 and changes during the periods then ended is presented below:

| Stock options | September 30, 2015 | | June 30, 2015 | |
|-------------------------------------|--------------------|---------------------------------|---------------|---------------------------------|
| | # of options | Weighted average exercise price | # of options | Weighted average exercise price |
| Outstanding, at beginning of period | 7,055,000 | \$ 0.38 | 12,760,080 | \$ 0.42 |
| Forfeited | - | - | (33,334) | 0.10 |
| Expired | (775,000) | 0.51 | (5,671,746) | 0.48 |
| Outstanding, at end of period | 6,280,000 | \$ 0.36 | 7,055,000 | \$ 0.38 |
| Exercisable, at end of period | 6,280,000 | \$ 0.36 | 7,055,000 | \$ 0.38 |

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2015:

| Number of options outstanding | Number of options exercisable | Exercise price | Expiry date |
|-------------------------------|-------------------------------|----------------|-------------------|
| 915,000 | 915,000 | \$ 1.20 | March 29, 2016 |
| 1,450,000 | 1,450,000 | 0.40 | October 10, 2016 |
| 225,000 | 225,000 | 0.56 | February 7, 2017 |
| 1,640,000 | 1,640,000 | 0.17 | November 28, 2017 |
| 2,050,000 | 2,050,000 | 0.10 | September 9, 2018 |
| 6,280,000 | 6,280,000 | | |

(c) Contributed surplus comprised the following as at September 30, 2015 and June 30, 2015:

| | September 30, 2015 | June 30, 2015 |
|--|--------------------|---------------|
| Stock-based compensation | \$ 10,111,924 | \$ 10,111,924 |
| 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 |
| | \$ 24,554,508 | \$ 24,554,508 |

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

| Numerator: | 2015 | 2014 |
|-------------------------|----------------|----------------|
| Net loss for the period | \$ (4,572,870) | \$ (2,767,253) |

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited - prepared in Canadian dollars)

7. Equity (continued):

| 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: | 2015 | 2014 |
|--|------------------|-----------|
| Basic and diluted | \$ (0.04) | \$ (0.02) |

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 6,280,000 shares related to stock options that were anti-dilutive for the three months ended September 30, 2015 (three months ended September 30, 2014 – 11,631,680 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, 2015 and June 30, 2015:

| | September 30, 2015 | June 30, 2015 |
|---|---------------------------|---------------|
| Common shares outstanding | 129,794,289 | 129,794,289 |
| Stock options to purchase common shares | 6,280,000 | 7,055,000 |
| Fully diluted common shares outstanding | 136,074,289 | 136,849,289 |

8. 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 three months ended September 30, 2015.

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2015****(Unaudited - prepared in Canadian dollars)**

8. Segmented information (continued):

The following is segmented information for the three months ended September 30, 2014 and as at June 30, 2015:

| | Three months ended September 30, 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 | \$ 73,267 | \$ 586,742 | \$ 3 | \$ 8,697,392 | \$ 8,697,395 |
| Israel | - | 8,558 | - | - | - |
| United States | - | 2,082,132 | - | 22,569 | 22,569 |
| Colombia | - | 87,719 | - | - | - |
| Argentina | - | 1,932 | - | 6,524 | 6,524 |
| Brazil | - | 170 | - | 42 | 42 |
| | \$ 73,267 | \$ 2,767,253 | \$ 3 | \$ 8,726,527 | \$ 8,726,530 |

9. Expenses by nature:

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

| | 2015 | 2014 |
|---|------------|------------|
| Salaries, consulting and administrative fees | \$ 163,109 | \$ 237,657 |
| Transaction costs | 60,866 | 8,117 |
| Other office and general | 21,038 | 23,414 |
| Operating lease payments | 21,005 | - |
| Foreign exchange loss (gain) | 18,466 | (177,537) |
| Exploration and evaluation expenses | 18,264 | - |
| Other employment benefits | 6,311 | 4,657 |
| Shareholder relations, transfer agent and filing fees | 3,233 | (1,156) |
| Travel and promotion | 2,768 | 7,465 |
| Stock-based compensation expense | - | 10,217 |
| Professional fees | (944) | 74,098 |
| | \$ 314,116 | \$ 186,932 |

10. Finance expenses:

Finance expenses for the three months ended September 30, 2015 consisted of interest expense from margin borrowings.

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2015****(Unaudited - prepared in Canadian dollars)**

11. Management of capital:

There were no changes in the Company's approach to capital management during the three months ended September 30, 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 current liabilities as at September 30, 2015.

12. 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, 2015. The Company manages market risk by having a portfolio which is not singularly exposed to any one issuer.

The following table shows the estimated sensitivity of the Company's after-tax net loss for the three months ended September 30, 2015 from a change in the closing trade price of the Company's investments with all other variables held constant as at September 30, 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% | \$ 93,530 | \$ (93,530) |
| 4% | 187,061 | (187,061) |
| 6% | 280,591 | (280,591) |
| 8% | 374,122 | (374,122) |
| 10% | 467,652 | (467,652) |

The following table shows the estimated sensitivity of the Company's after-tax net loss for the three ended September 30, 2014 from a change in the closing bid 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) |

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2015****(Unaudited - prepared in Canadian dollars)**

12. 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 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, 2015 | June 30, 2015 |
|---|---------------------------|------------------|
| Denominated in U.S. dollars: | | |
| Cash and cash equivalents | \$ 25,641 | \$ 1,042,586 |
| Due from brokers | - | 363,757 |
| Prepays and receivables | 3,516 | 6,550 |
| Due from to brokers | (1,798,832) | - |
| Accounts payable and accrued liabilities | (64,841) | (130,364) |
| Net assets denominated in U.S. dollars | <u>(1,834,516)</u> | <u>1,282,529</u> |
| Denominated in Brazilian reals: | | |
| Cash and cash equivalents | 39 | 42 |
| Net assets denominated in Brazilian reals | <u>42</u> | <u>42</u> |
| Denominated in Argentinean pesos: | | |
| Cash and cash equivalents | 4,968 | 6,524 |
| Net assets denominated in Argentinean pesos | <u>4,968</u> | <u>6,524</u> |

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the three months ended September 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 September 30, 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% | \$ (26,967) | \$ 26,967 |
| 4% | (53,935) | 53,935 |
| 6% | (80,902) | 80,902 |
| 8% | (107,870) | 107,870 |
| 10% | (134,837) | 134,837 |

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2015****(Unaudited - prepared in Canadian dollars)**

12. Risk management (continued):

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) |

13. Contingent liability:

In April 2006, Brownstone entered into a farm-in agreement with Canoro Resources Ltd. ("Canoro"), whereby it acquired a 15% interest in block AA-ONN-2003/2, in Arunachal Pradesh, northwest India. During 2009, the parties completed the interpretation of the 3-D seismic program. The consortium partners in the block are: Brownstone - 15%, Canoro - 15%, National Thermal Power Corporation - 40%, and Geopetrol International Inc. - 30%.

On April 8, 2010, the Production Sharing Contract (the "PSC") with the Government of India, through the Directorate General of Hydrocarbons (the "DGH") expired and as a result, the DGH called the Company's letter of guarantee totaling US\$1,395,000 issued by Royal Bank of Canada ("RBC"). The DGH's position is that the Company and its partners failed to meet certain terms of the PSC governing their commitments on exploration block AA-ONN-2003/2. The Company and its partners have disputed certain terms of the PSC, including its expiry on the basis of force majeure. As at June 30, 2010, the Company wrote-off all of its oil and gas properties and related expenditures in India.

In January 2015, the Company received notice from the DGH that it denied the request for non-levy of the cost of the unfinished PSC and demanded payment of the outstanding balance of US\$14,054,284 (Brownstone's share – US\$1,423,510). The Company considers the claim to be completely without merit and will defend itself vigorously. No provision has been made for the claim in the consolidated statement of financial position as at September 30, 2015 or June 30, 2015.

14. Future accounting changes:

At the date of authorization of these consolidated financial statements, the IASB and the International Financial Reporting Interpretations Committee has issued the following new and revised Standards and Interpretations that are not yet effective for the relevant reporting periods and the Company has not early adopted these standards, amendments and interpretations. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company. The Company intends to adopt these standards, if applicable, when the standards become effective:

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited - prepared in Canadian dollars)

14. Future accounting changes (continued):

- (a) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), was issued in May 2014, which replaced IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs.

The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

- (b) In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is in the process of evaluating the impact of adopting these amendments on the Company's consolidated financial statements.

15. Comparative interim condensed consolidated financial statements:

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the September 30, 2015 financial statements.