Consolidated Financial Statements of

BLACKHAWK RESOURCE CORP.

For the year ended June 30, 2011 and ten month period ended June 30, 2010

BLACKHAWK RESOURCE CORP.

October 27, 2011

Management's Report to the Shareholders

Management is responsible for the reliability and integrity of these financial statements. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgment.

The accompanying consolidated financial statements have been prepared using policies and procedures established by management and reflect fairly the Corporation's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the financial statements. Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of a majority of non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

Signed *"David Antony"*

David Antony, CEO

Signed *"Charidy Lazorko"*

Charidy Lazorko, CFO

Independent Auditor's Report

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To the Shareholders of Blackhawk Resources Corp.

We have audited the accompanying consolidated financial statements of Blackhawk Resources Corp., which comprise the consolidated balance sheet as at June 30, 2011, the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year ended June 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Blackhawk Resources Corp. as at June 30, 2011, and the results of its operations and its cash flows for the year ended June 30, 2011, in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which indicate that the Company incurred a net loss of $770,950 during the year ended June 30, 2011, and, as of that date, the Company has an accumulated deficit of $3,281,154. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

Other matter

The consolidated financial statements of Blackhawk Resources Corp. for the period ended June 30, 2010, were audited by another auditor who expressed an unmodified opinion on those statements on October 12, 2010.

Grant Thornton LLP

Calgary, Canada
October 27, 2011

Chartered Accountants

BLACKHAWK RESOURCE CORP.
Consolidated Balance Sheets

		June 30, 2011		June 30, 2010
Assets				
Current assets:				
Cash and cash equivalents	$	19,638	$	305,959
Accounts receivable (note 16(a))		349,482		528,832
Prepaid expenses and deposits		40,946		195,683
		410,066		1,030,474
Assets held for sale (note 5)		5,352		5,108
Petroleum and natural gas properties (note 7)		6,309,381		5,103,516
	$	**6,724,799**	**$**	**6,139,098**
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	460,894	$	1,451,925
Bank debt (note 8)		2,550,000		-
		3,010,894		1,451,925
Shareholder loans (note 9)		-		1,000,000
Asset retirement obligations (note 10)		431,533		399,568
		431,533		1,399,568
Shareholders' equity:				
Share capital (note 11)		6,124,352		4,516,166
Contributed surplus (note 12)		439,174		427,706
Performance rights (note 11(d))		-		853,937
Deficit		(3,281,154)		(2,510,204)
		3,282,372		3,287,605
Nature of business (note 1)				
Going concern (note 2)				
Commitments (note 17)				
Subsequent event (note 18)				
	$	**6,724,799**	**$**	**6,139,098**

See accompanying notes to consolidated financial statements.

On behalf of the Board:

signed *"Raymond Antony"* Director

signed *"Michael Bowie"* Director

BLACKHAWK RESOURCE CORP.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the year ended June 30, 2011 and the 10 month period ended June 30, 2010

		2011		2010
Revenue:				
Oil and gas revenues	$	3,477,861	$	764,218
Royalties		(436,332)		(31,521)
Investment revenue		5,079		6,440
		3,046,608		739,137
Expenses				
Depletion and accretion		1,281,662		390,401
Field operating costs		1,010,828		221,454
Transportation of oil and gas costs		102,637		18,433
General and administrative (note 15)		726,123		467,703
Interest and bank fees		123,652		1,885
Professional fees		557,743		154,279
Stock based compensation (note 11(c))		11,468		206,442
		3,814,113		1,460,597
Loss before other items		(767,505)		(721,460)
Future income tax recovery (note 14)		-		425,000
Loss from continuing operations		(767,505)		(296,460)
Loss from discontinued operations, net of income taxes (note 5(b))		(3,445)		(392,544)
Net loss being comprehensive loss for the period		**(770,950)**		**(689,004)**
Deficit, beginning of period		(2,510,204)		(1,821,200)
Deficit, end of period	**$**	**(3,281,154)**	**$**	**(2,510,204)**
Basic and diluted loss per share (note 13):				
Loss from continuing operations	$	(0.01)	$	(0.01)
Loss from discontinued operations	$	(0.00)	$	(0.01)
Net loss	$	(0.01)	$	(0.02)

See accompanying notes to consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Consolidated Statements of Cash Flows
For the year June 30, 2011 and the 10 month period ended June 30, 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Loss from continuing operations	$ (767,505)	$ (296,460)
Items not affecting cash:		
Depletion and accretion	1,281,662	390,401
Stock based compensation	11,468	206,442
Future income tax recovery	-	(425,000)
	525,625	(124,617)
Net change in non-cash operating working capital	(657,187)	616,418
	(131,562)	491,801
Discontinued operations (note 5)		
Loss from discontinued operations, net of income taxes	(3,445)	(392,544)
Items not affecting cash:		
Depreciation	-	1,144
Write down of petroleum and natural gas properties	-	471,510
	(3,445)	80,110
	(135,007)	571,911
Financing:		
Issuance of shares pursuant to private placement (note 11(b))	-	1,700,000
Share issue cost	-	(98,122)
Repayment of debentures (note 6)	-	(267,644)
Repayment of shareholder loans (note 6)	-	(100,000)
Shareholder loans (note 9)	(1,000,000)	1,000,000
Bank debt (note 8)	2,550,000	-
	1,550,000	2,234,234
Investments:		
Additions to petroleum and natural gas properties – continued operations	(1,701,314)	(3,001,551)
Cash acquired on acquisition of subsidiary (note 6)	-	2,839
	(1,701,315)	(2,998,712)
Net decrease in cash and cash equivalents	(286,321)	(192,567)
Cash and cash equivalents, beginning of period	305,959	498,526
Cash and cash equivalents, end of period	**$ 19,638**	**$ 305,959**
Supplemental cash flow information:		
Interest paid	$ 102,389	$ 965

See accompanying notes to consolidated financial statements.

1. Nature of business:

Blackhawk Resource Corp. (the “Corporation” or “Blackhawk”) is incorporated under the Business Corporations Act (Alberta). The Corporation is primarily engaged in the acquisition of and the exploration and development of oil and gas properties in Canada.

Effective September 1, 2009, the Corporation changed its year end to June 30 from August 31. The year end change was necessary to make the Corporation’s financial statements directly comparable to other junior oil and gas corporations on a quarterly basis. This change in year end required the Corporation to have a transition year with a ten month period ending June 30, 2010.

During the year ended August 31, 2009, the Corporation determined the Brazilian subsidiary was not suited for its future operations program and began to actively market the company to potential buyers (see note 5). The Corporation has refocused its resources on Canadian oil and gas exploration and development.

2. Going concern:

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

As at June 30, 2011, the Corporation has net working capital deficit of $2,600,828 (June 30, 2010 – $421,451), negative cash flow from operations of $131,562 (June 30, 2010 – positive cash flow $491,801) and net loss of $770,950 (June 30, 2010 – $689,004). The Corporation may deem it necessary, as operations progress, to raise capital through equity markets, debt markets or other financing arrangements.

The ability of the Corporation to continue as a going concern will depend on achieving and maintaining profitable operations and may also depend on raising additional financing sufficient to meet all obligations. There is no assurance this capital will be available. Although in the opinion of management, the use of the going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate.

On July 27, 2011, the Corporation announced that it had signed a purchase and sale agreement related to its Bodo properties. The properties have been sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 that the Corporation will use to settle any outstanding debts and fund its future operations. The closing of the transaction is still awaiting final regulatory approval. (see note 18).

3. Significant accounting policies:

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below:

(a) Basis of consolidation of financial statements:

The consolidated financial statements of the Corporation include the accounts of the Corporation and its wholly-owned subsidiaries Blackhawk Resource Operating Corp., and RMC Exploracao Petrolifera Ltda. All inter-company transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents includes cash and term deposits with maturity of three months or less when purchased.

3. Significant accounting policies (Continued):

(c) Petroleum and natural gas properties:

(i) Capitalized costs:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring, developing and acquiring petroleum and natural gas properties, including asset retirement costs, are capitalized into a cost centre for each country where the Corporation has operations. Costs include land acquisition costs, geological and geophysical charges, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells, and tangible production equipment. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion by 20% or more.

(ii) Depletion and depreciation:

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided for using the unit of production method based upon estimated proved petroleum and natural gas reserves, after royalties, on a cost centre basis. The costs of significant unevaluated properties and major development projects are excluded from costs subject to depletion. Future development costs associated with the proved reserves are included in the calculation for depletion. Unevaluated properties and major development projects are assessed for impairment each reporting period. When proved reserves are assigned or a property/major development project is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion. For depletion and depreciation purposes, relative production volumes and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

(iii) Impairment test:

An impairment loss is recognized on a cost centre basis when the carrying amount of the petroleum and natural gas properties of a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed to be unrecoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unevaluated properties and the cost of major development projects is less than the carrying amount of the petroleum and natural gas properties. In determining the amount of the impairment, the carrying amount of the petroleum and natural gas properties capitalized in a cost centre is compared to the fair value of the associated proved and probable reserves and the lower of cost and market value of any unproved properties which are subject to a separate test for impairment.

In determining the fair value of the proved and probable reserves, the Corporation has used cash flows based upon estimated future oil and gas prices, adjusted for quality differences, transportation, foreign exchange and other relevant factors. These cash flows are discounted using a risk-free interest rate adjusted for political, reserve volume and type, regulatory and other applicable risks and uncertainties. If the carrying value of the oil and gas properties is in excess of its fair value, the excess is charged to operations as additional depletion and depreciation.

(iv) Asset retirement obligations:

The Corporation recognizes the fair value of an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value is based on estimates of future costs, reserve life, inflation and discount rates. The provision is recorded as a long-term liability, with a corresponding increase in the carrying value of the cost centre. The capitalized amount is depleted on a unit-of-production basis based on estimated proved reserves after royalties as determined by independent engineers. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the asset retirement obligation. Actual asset retirement expenditures are charged against the liability to the extent of the liability recorded.

3. Significant accounting policies (Continued):

(d) Interest in joint operations:

Certain of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

(e) Income taxes:

The Corporation uses the liability method of accounting for future income taxes whereby future income taxes assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. In assessing whether the future tax assets are realizable, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

(f) Revenue recognition:

Revenue associated with the sale of petroleum and natural gas production owned by the Corporation is recognized when the title passes from the Corporation to its customers and collection is reasonably assured.

The Corporation recognizes investment revenue as it is earned.

(g) Stock-based compensation:

The Corporation uses the fair value based method to account for all stock-based payments. Under this method, compensation cost is charged directly to operations. Direct awards of stock granted to employees are recorded at fair value on the date of grant and the associated expense is amortized over the vesting period with a corresponding credit to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital. Options granted to non-employees, to the extent unvested, are valued on subsequent reporting dates.

The fair value of stock options granted is estimated using the Black-Scholes option pricing model, taking into account amounts that are believed to approximate the volatility of the trading price of the Corporation's shares, the expected lives of the awards of stock-based compensation, the fair value of the Corporation's stock and the risk-free interest rate, as determined at the grant date. The Corporation has not incorporated an estimated forfeiture rate for stock options that may not vest. The Corporation accounts for actual forfeitures as they occur.

(h) Per share amounts:

Basic earnings per share, is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share, is calculated by using the treasury stock method.

(i) Foreign currency translation:

Monetary items are translated at the rate of exchange at the balance sheet date; non-monetary items are translated at historical exchange rates and income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in the statement of operations for the period.

(j) Measurement uncertainty:

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reported periods. By their nature, these estimates, including those related to future cash flows, are subject to measurement uncertainty and the impact on the current and future consolidated financial statements resulting from changes in such estimates could be significant. Due to the use of estimates, actual results could differ significantly from those reported. Management believes the estimates used within the consolidated financial statements are reasonable as of the date of these consolidated financial statements.

3. Significant accounting policies (Continued):

The amounts recorded for depletion and amortization of petroleum and natural gas properties, stock based compensation, income taxes, asset retirement obligations, and other accruals are based on estimates.

The impairment test is based on estimates of oil and natural gas reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. When estimating oil and natural gas reserves and their associated net cash flows, there are numerous factors that contain significant measurement uncertainties that are beyond the Corporation's control. Those factors include, but are not limited to, volumetric reserve estimates, future commodity pricing, future operating costs and the timing of and amount of future capital costs. When assessing the fair market value of reserves, additional factors must be considered such as current market conditions, credit markets, location of reserves, classification of reserves based on risk of recovery, political risk and other factors, all of which may contribute to significant measurement uncertainty. Due to the complexity involved, reserve estimates and fair market value estimates will vary greatly from one party to another.

Stock based compensation and stock options are valued using the Black-Scholes option pricing model that includes assumptions that contain measurement uncertainty.

The valuation allowance for income taxes is subject to measurement uncertainty pertaining to projecting future production levels, future capital expenditures, future commodity prices and future operating costs, all of which could vary significantly from actual results.

Asset retirement obligations contain plugging and abandonment estimates, productive well life estimates, and other factors for which actual results may vary significantly from original estimates.

(k) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other financial liabilities. The Corporation has designated cash and cash equivalents as held for trading which are measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities, shareholder loans and bank debt are classified as other liabilities which are measured at amortized cost using the effective interest method. Transaction costs are expensed for all financial assets and financial liabilities classified as other then held for trading as incurred.

The Corporation will assess at each reporting period whether a financial asset is impaired with any impairment recorded in earnings.

(l) Flow-through shares:

The Corporation will from time to time issue flow-through shares to finance portions of its capital expenditure program. Pursuant to the terms of the flow-through share agreement, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded to the estimated cost of the renounced tax deductions when the expenditures are renounced.

4. Future accounting pronouncements:

(a) International Financial Reporting Standards ("IFRS"):

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation's reported financial position and reported results of operations. The Corporations first IFRS compliant quarter will be for the period ended September 30, 2011.

5. Discontinued operations and asset held for sale:

During the year ended August 31, 2009, the Corporation changed its business to focus on oil and gas exploration and development in Western Canada (see note 6). As such, the Corporation sold its remaining construction related assets and began to actively market its Brazilian properties. The results of operations of the Corporation's Brazilian oil and gas activities have been retroactively reclassified in the statement of operations as discontinued operations, net of income taxes. Details of the Corporation's activities are as follows:

(a) Brazilian oil and gas properties:

Assets held for sale totaling $5,352 (June 30, 2010 - $5,108) are comprised of the working capital in Brazil. After receiving notice from the Brazilian Government of expiration of its permits, the Corporation wrote off petroleum and natural gas properties in the amount of $471,510 as at June 30, 2010.

On August 31, 2009, the Corporation signed a purchase and sale agreement with an arm's length third party in the amount of approximately $583,000 (U.S. $550,000). The agreement was effective upon completion of due diligence by the purchaser which occurred on or about November 26, 2009. During the year ended June 30, 2010, the agreement was terminated and a non-refundable deposit was released from trust to the Corporation in the amount of $113,683 (US$109,945).

(b) Details of the results of discontinued operations and assets held for sale:

Discontinued operations comprised of the following for the year ended June 30, 2011 and the ten month period ended June 30, 2010:

	June 30, 2011	June 30, 2010
Revenue		
Other revenue	$ -	$ 116,797
	-	116,797
Expenses		
Depreciation	-	1,144
General and administrative	-	18,529
Interest and bank fees	-	663
Professional fees	3,754	7,454
	3,754	27,790
Income (loss) before other items	(3,754)	89,007
Other items		
Foreign exchange gain (loss)	309	(10,041)
Write down of petroleum and natural gas properties	-	(471,510)
Loss from discontinued operations	$(3,445)	$(392,544)

6. Acquisition of Black Bore Exploration Ltd.:

On September 1, 2009, the Corporation closed the acquisition of all of the issued and outstanding common shares of Black Bore Exploration Ltd. ("Black Bore"), an Alberta based oil and gas exploration and production company with operations focused in the Western Canadian Sedimentary Basin. The aggregate consideration paid by the Corporation for all of the Black Bore common shares was a total of 7,694,671 units of Blackhawk at a deemed price of $0.10 per unit. Each unit of Blackhawk was comprised of: (a) one Blackhawk common share; (b) one 75 BOE/D performance right; and (c) 0.6 of one 150 BOE/D performance right. Each whole performance right will entitle the holder to acquire one Blackhawk common share at no additional consideration upon satisfaction of the relevant production threshold. The business combination has been accounted for using the purchase method with the results included in the consolidated financial statements from the date of acquisition.

On August 27, 2010, the Corporation announced the vesting of the 75 BOE/D performance rights. The vesting of these rights resulted in the issuance of 7,694,671 common shares, valued at $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the 150 BOE/D performance rights. The vesting of these rights resulted in the issuance of 4,616,802 common shares, valued at $0.115 per share.

As a result of the vesting of rights, the updated purchase price allocation is as follows:

Cost of acquisition	
Common shares issued (7,694,671 common shares)	$769,467
Performance rights exercised subsequent to acquisition	1,608,186
Total consideration	$2,377,653

Net assets acquired and liabilities assumed	
Petroleum and natural gas properties	$3,170,660
Working capital	(101,750)
Debenture payable	(267,644)
Shareholder loans	(100,000)
Asset retirement obligation	(323,613)
	$2,377,653

Included in working capital is $2,839 in cash and cash equivalents.

The debenture payable and shareholder loans were repaid in the month following the close of the acquisition.

7. Petroleum and natural gas properties:

June 30, 2011	Cost	Accumulated Depletion and Impairment	Net Book Value
Petroleum and natural gas properties - Alberta	$7,927,545	$(1,618,164)	$6,309,381
Total	$7,927,545	$(1,618,164)	$6,309,381

June 30, 2010	Cost	Accumulated Depletion and Impairment	Net Book Value
Petroleum and natural gas properties - Alberta	$5,471,983	$(368,467)	$5,103,516
Total	$5,741,983	$(368,467)	$5,103,516

As at June 30, 2011, future capital expenditures of $1,530,000 (2010 – $200,000), as estimated by independent reserves engineers, relating to the development of proved reserves have been included in costs subject to depletion. Undeveloped properties with a cost at June 30, 2011 of $1,022,726 (2010 - $Nil) included in petroleum and natural gas properties, have not been subject to depletion.

The Corporation performed an impairment (ceiling) test calculation at June 30, 2011 to assess the recoverable value of the oil and natural gas properties and equipment. The future prices are based on July 1, 2011 commodity price forecasts of the Corporation's independent reserve engineers. These prices have been adjusted for commodity price differentials specific to the Corporation. The following table summarizes the benchmark prices used in the ceiling test calculation at June 30, 2011**:**

	Natural gas Alberta AECO average price per mcf	Condensate Edmonton Par Prices per bbl	Medium Oil 29 degree API Cromer, SK per bbl
2011	$4.10	$99.75	$88.25
2012	$4.60	$101.75	$89.20
2013	$5.20	$103.80	$90.45
2014	$5.50	$105.85	$91.05
2015	$5.85	$108.00	$92.35
2016	$6.20	$110.15	$93.65
2017	$6.55	$112.35	$95.00
Thereafter	+2%/year	+2%/year	+2%/year

For the year ended June 30, 2011 and 2010, no ceiling test write-down was required.

8. Bank debt:

The Corporation has a demand operating facility of $3.3 million. The Corporation may borrow via Prime-based loans bearing interest at the prime bank rate plus 2 percent per annum. The credit facility is subject to industry standard covenants with a periodic review occurring November 30, 2011. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lender, based primarily on reserves and using commodity prices estimated by the lender, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility which may require a repayment to the lender. The credit facility is secured against all properties and lands in Alberta. As of June 30, 2011, the Corporation was in compliance with all the covenants of the facility and $2,550,000 (June 30, 2010 - $Nil) had been drawn against it.

On July 27, 2011, the Corporation announced that it had signed a purchase and sale agreement related to its Bodo properties. The properties have been sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 that the Corporation will use to settle any outstanding debts, including the Corporation's bank debt, and fund its future operations. The closing of the transaction is still awaiting final regulatory approval. (see note 18).

9. Shareholder loans:

During the 10 month period ended June 30, 2010, the Corporation entered into shareholder loan agreements with two shareholders of the Corporation. The loans bore interest at a rate of prime plus 3.5% per annum calculated monthly, were secured by a security agreement against all acquired property and all proceeds thereof and were due on September 30, 2011. On August 9, 2010, the loans were repaid in full.

10. Asset retirement obligations:

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of petroleum and natural gas properties and equipment.

	June 30, 2011	June 30, 2010
Balance, beginning of period	$399,568	-
Black Bore acquisition (note 6)	-	323,613
Liabilities incurred	-	54,021
Accretion expense	31,965	21,934
Balance, end of period	$431,533	$399,568

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations as at June 30, 2011 is approximately $590,014 (June 30, 2010 - $590,014), which is expected to be incurred over the next year to 10 years. An inflation factor of 3% per annum was applied to determine the expected future costs and a credit-adjusted risk free rate of 8% was used to calculate the present value of the estimated future asset retirement obligation at June 30, 2011 and 2010.

11. Share capital:

(a) Authorized:

Unlimited number of common voting shares and preferred shares

11. Share capital (Continued):

(b) Issued:

	June 30, 2011		June 30, 2010	
	Number of Shares	**Amount**	**Number of Shares**	**Amount**
Balance, beginning of period	47,727,671	$4,516,166	30,033,000	$2,569,821
Shares issued pursuant to a private placement	-	-	10,000,000	1,700,000
Share issue costs	-	-	-	(98,122)
Future income tax	-	-	-	(425,000)
Shares issued pursuant to Black Bore acquisition (note 6)	-	-	7,694,671	769,467
Shares issued pursuant to performance rights (note 6)	12,311,473	1,608,186	-	-
Balance, end of period	60,039,144	$6,124,352	47,727,671	$4,516,166

On August 27, 2010, the Corporation announced the vesting of the 75 BOE/D performance rights. The vesting of these rights resulted in the issuance of 7,694,671 common shares of the Corporation at a value of $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the 150 BOE/D performance rights. The vesting of these rights resulted in the issuance of 4,616,802 common shares, valued at $0.115 per share.

On December 10, 2009, the Corporation issued 10,000,000 common shares on a flow-through basis at a price of $0.17 per Flow-Through Share. Gross proceeds of the private placement totaled $1,700,000 and $98,122 in share issue costs were incurred.

(c) Stock options:

The Corporation has implemented a stock option plan for Directors, Officers, Employees, and Consultants. The exercise price of each option approximates the market price for the common shares on the date the option was granted. Options granted under the plan generally vest over an eighteen month period from the date of the grant and expire five years after the grant date. The maximum number of common shares to be issued upon the exercise of options granted under the plan is 6,003,914 (June 30, 2010 – 4,772,767) common shares. The details of this plan are as follows:

	June 30, 2011		June 30, 2010	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Options outstanding, beginning of period	3,085,000	$0.14	1,035,000	$0.14
Expired	(1,600,000)	$0.15	(275,000)	$0.20
Granted	-	-	2,325,000	$0.15
Options outstanding, end of period	1,485,000	$0.13	3,085,000	$0.14
Exercisable, end of period	1,485,000	$0.13	2,310,000	$0.14

11. Share capital (Continued):

The following table summarizes information about stock options outstanding and exercisable at June 30, 2011:

Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
$0.10	575,000	2.65 years	$0.10
$0.15	185,000	2.85 years	$0.15
$0.15	725,000	3.18 years	$0.15
	1,485,000	2.93 years	$0.13

During the year ended June 30, 2011, the Corporation recorded stock based compensation of $11,468 (June 30, 2010 - $206,442) for the outstanding stock options granted.

The weighted average fair value of the options granted in 2010 was $0.09 per share and was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk-free interest rate	2.57%
Expected life of options	5 years
Expected volatility	171.00%
Dividend yield	0.00%

(d) Performance rights:

On September 1, 2009, the Corporation closed the acquisition of all of the issued and outstanding common shares of Black Bore Exploration Ltd. The aggregate consideration paid by the Corporation for all of the Black Bore common shares was a total of 7,694,671 units of Blackhawk at a deemed price of $0.10 per unit. Each unit of Blackhawk was comprised of: (a) one Blackhawk common share; (b) one 75 BOE/D performance right; and (c) 0.6 of one 150 BOE/D performance right. Each whole performance right will entitle the holder to acquire one Blackhawk common share upon satisfaction of the relevant production threshold. This transaction resulted in the issuance of performance rights to acquire a further 12,311,473 Blackhawk common shares.

Each whole BOE/D performance right will entitle the holder to acquire at any time before the 18 month anniversary from issuance of such BOE/D performance right, without action or payment of any additional consideration, one Blackhawk share, provided the relevant production threshold is for three consecutive months, measured on a monthly average basis.

On August 27, 2010, the Corporation announced the vesting of the 75 BOE/D performance rights. The vesting of these rights resulted in the issuance of 7,694,671 common shares of the Corporation valued at $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the 150 BOE/D performance rights. The vesting of these rights resulted in the issuance of 4,616,802 common shares, valued at $0.115 per share.

12. Contributed surplus:

The following table reconciles the Corporation's contributed surplus:

	June 30, 2011	June 30, 2010
Balance, beginning of period	$427,706	$221,264
Stock-based compensation – expensed	11,468	206,442
Balance, end of period	$439,174	$427,706

13. Per share amounts:

Loss per share on a diluted weighted average basis is the same as that presented for basic as all factors are anti-dilutive. The number of shares that would have been included in the computation of diluted earnings per share would have been as follows:

	June 30, 2011	June 30, 2010
Weighted average shares outstanding basic	56,914,897	44,427,340
Stock options	127,067	–
Fully Diluted	57,041,964	44,427,340

In calculating diluted income (loss) per common share the Corporation excluded 910,000 options for the year ended June 30, 2011 and Nil options for the ten months ended June 30, 2010 as the exercise price is greater than the average market price of the common shares for the period.

14. Income taxes:

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The differences between the "expected" income tax expenses and the actual income tax provision are summarized as follows:

	June 30, 2011	June 30, 2010
Loss from continuing operations	$(767,505)	$(721,460)
Expected income tax recovery at 27.25% (2010 – 28.00%)	(209,145)	(202,008)
Stock-based compensation	3,125	57,804
Discontinued operations	(939)	(109,912)
Effect of change in tax rate and other items	(15,553)	98,087
Change in valuation allowance	222,512	(268,971)
Total income taxes (recovery)	$ –	$ (425,000)

14. Income tax (Continued):

The components of the net future income tax assets (liabilities) are as follows:

	June 30, 2011	June 30, 2010
Assets held for sale	$(1,338)	$(1,277)
Petroleum and natural gas properties	119,735	287,932
Non-capital losses available for future periods	696,157	523,624
Capital losses available for future periods	31,276	31,276
Share issuance costs	16,240	21,472
Valuation allowance	(862,070)	(863,027)
Net future tax liabilities	$ –	$ –

As at June 30, 2011, the Corporation has for tax purposes, non-capital losses available to carry forward to future years totaling approximately $2,784,627 (2010 - $2,094,496).

The net operating loss carry-forwards reflected above expire as follows:

Year of Expiry	Total
2031	$690,131
2030	438,976
2029	1,391,790
2028	229,247
2027	34,483
Total	**$2,784,627**

15. Related party transactions:

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties, and are comparable in terms, rates and conditions in the oil and gas industry.

During the year ended June 30, 2011, companies controlled by officers and directors of the Corporation were paid $106,500 (June 30, 2010 - $242,500) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At June 30, 2011, no amount was outstanding in accounts payable and accrued liabilities (June 30, 2010 – $Nil).

During the year ended June 30, 2011, companies controlled by former officers and directors of the Corporation were paid $117,220 (June 30, 2010 - $Nil) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At June 30, 2011, no amount was outstanding in accounts payable and accrued liabilities (June 30, 2010 – $Nil).

During the year ended June 30, 2011, the Corporation incurred legal costs of $55,768 (June 30, 2010 - $25,743) with a law firm in which the Corporate secretary is a Partner. The legal costs incurred were in the normal course of operations and were based on the exchange value of the service provided. Of the legal services provided, $Nil were included in accounts payable and accrued liabilities at June 30, 2011 (June 30, 2010 - $Nil).

16. Financial instruments:

The Corporation's financial instruments as at June 30, 2011 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. The Corporation records its financial instruments at their carrying amounts which approximates fair value, unless otherwise disclosed in the consolidated financial statements. The carrying amounts approximate fair values due to the short term maturities of these financial instruments.

CICA Section 3862, Financial Instruments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Level 1

- This category includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide information on an ongoing basis. As at June 30, 2011, the Corporation has cash and cash equivalents which qualify as Level 1.

Level 2

- This category includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in the category are valued using models or other industry standard valuation techniques derived from observable market data. Such valuation techniques include inputs such as quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. As at June 30, 2011, the Corporation has no instruments which qualify as Level 2.

Level 3

- These categories of financial instruments are those with inputs for the asset or liability that are not based on observable market data (unobservable inputs). As at June 30, 2011, the Corporation has no instruments which qualify as Level 3.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. As at June 30, 2011, the Corporation's accounts receivable consisted of $168,836 due from petroleum and natural gas marketers, $154,044 due from the Canadian government for the refund of GST paid, $4,263 due from the Minister of Finance, and $22,339 due from joint interest partners.

The Corporation's receivables are normally collected within a 60-90 day period. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation has not experienced any collection issues with its petroleum and natural gas marketers. The Corporation attempts to mitigate the risk from joint-venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint-venture partners as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint-venture partners. The Corporation is also exposed to credit risk with regards to its customers refusing payment and the government denying the Corporation claims as filed.

Cash and cash equivalents, when outstanding, consist of cash bank balances and short-term deposits maturing in 90 days or less. The Corporation manages the credit exposure related to short term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return.

16. Financial instruments (Continued):

The carrying amount of cash and cash equivalents and accounts receivable represent the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at June 30, 2011 or June 30, 2010.

The Corporation considers the receivables to be aged as follows:

	0 – 90 days	**> 90 days**
Accounts receivable	$208,521	$140,961

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Corporation's reputation.

The following are the contractual maturities of financial liabilities as at June 30, 2011:

Financial Liabilities	**< One Year**	**> One Year**
Accounts payable and accrued liabilities	$460,894	-
Bank debt	$ 2,550,000	-
Total	$3,010,894	-

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to control market risk exposures within acceptable limits, while maximizing returns.

- Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. The Corporation is exposed to foreign exchange rate risk since the exploration and development costs of its Brazil operations were mostly denominated in Brazilian Reals (BRL). As at August 31, 2009, the Corporation had decided to dispose of the Brazilian subsidiary so future currency exchange risk is expected to continue to be minimal. The Corporation does not engage in active hedging to minimize exchange rate risk.
- Interest rate risk is the risk that future cash flows will fluctuate as a result in changes in market interest rates. The Corporation is exposed to interest rate risk to the extent the changes in market interest rates will impact the Corporation's bank debt, which has a rate of prime plus 2%. The Corporation has not entered into any interest rate swaps or financial contracts to date. With regards to interest rate risk, a change of 1% in the effective interest rate would have an impact of approximately $25,500 on operations.

(d) Capital management:

In the definition of capital, the Corporation includes shareholders equity**.** The Corporation's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares, or engage in debt financing.

The Corporation has covenants relating to its bank debt as disclosed in note 8. As at June 30, 2011, the Corporation was in compliance with all of its covenants.

17. Commitments:

On December 10, 2009, the Corporation issued 10,000,000 flow-through common shares at $0.17 per share for gross proceeds of $1,700,000. As at June 30, 2011, the Corporation had incurred $1,700,000 in exploration and development costs towards this flow-through share obligation satisfying the terms of this flow-through share offering.

The Brazilian properties required the completion of a minimum exploration program ("MEP") work unit commitments on the properties over a two year period commencing March 2008. MEP work units are satisfied through completion of seismic programs and other exploratory survey methods. MEP commitments over the two-year period could cost up to $692,000, for which a financial guarantee was provided. On August 18, 2010, the Corporation received notice from the holder of its guarantee in Brazil, that an amount may become payable if the MEP work unit commitments were not completed per the Brazilian National Agency of Petroleum, Natural gas and Biofuels ("ANP"). The Corporation has reviewed the past expenditures related to its Brazilian operations and has submitted support to ANP what it believes qualify under the MEP for their review. At this time, the outcome of this notice is not determinable.

After the expiry of the licenses on the Brazilian properties, the Corporation was informed that there may be a claim in regards to this guarantee.

18. Subsequent event:

On July 27, 2011, the Corporation announced that it had signed a purchase and sale agreement related to its Bodo properties. The properties have been sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 with an effective date of July 1, 2011. Shareholder approval of the transaction was received on September 14, 2011. The closing of the transaction is still awaiting final regulatory approval.